Computing a Retired-Worker Benefit

Introduction

This section provides instructions and a worksheet for computing a retired-worker benefit.The worksheet can be used for persons born in 1922 through 1936—that is, those who attained age 62 in 1998 or earlier and were under age 75 at the end of 1998. The worksheet assumes that the worker had no prior period of entitlement to disability benefits and also did not work after becoming entitled to retired-worker benefits. For more detailed information, see the subsection "Benefit Computation and Automatic Adjustment Provisions" and the "Glossary of Program Terms."

The worksheet describes the various steps used in computing a benefit.The steps are based on the following Social Security program goals.

- To provide a benefit based on lifetime earnings

Benefits are related to earnings over a period of time that the worker could be expected to have worked in covered employment-from age 22 through age 61. The years of earnings considered are termed computation years. The worker's five lowest earnings years, including years of no earnings at all) are not considered in the computation. They are termed the drop out years.

- To index lifetime earnings

Earnings used in the computation are not the actual covered earnings, but an amount for each year which reflects earnings increases in average wage levels after the year the earnings were paid. This procedure is termed wage indexing. Currently, earnings are generally indexed to wage levels in the year the worker turns age 60. For example, for a person attaining age 62 in 1998, actual earnings in 1984 of $20,000 are indexed to $32,121.21 Earnings after age 60 are included at their actual (nominal) value.

- To replace a portion of the indexed earnings

Indexed earnings are averaged over the number of computation years to calculate the Average Indexed Monthly Earnings (AIME). A benefit formula is applied to the AIME to produce the Primary Insurance Amount (PIA), the amount payable to a worker who retires at age 65. The benefit formula is weighted to provide a higher replacement of earnings for lower wage workers. The formula for persons age 62 in 1998 is 90 percent of the first $477 of AIME; plus 32 percent of the next $2,398; plus 15 percent of the AIME over $2,875.

- To permit early retirement

Persons can retire as early as age 62, but the monthly benefit is reduced by 5/9 of 1 percent for each month of entitlement before age 65. The maximum reduction is 20 percent if he or she is entitled to benefits for all 36 months between 62 and 65.

- To provide for price indexing after age 62

Benefits are adjusted annually in December to reflect increases in the Consumer Price Index (CPI-W). The 1997 benefit increase was 2.1 percent. These cost-of-living adjustments are applied to the benefit for each year after the person attained age 62-even if the person was not actually receiving benefits.

- To give credit for earnings after age 61

Earnings after age 61 (which are not indexed) can be substituted for earnings in earlier years if they result in a higher benefit. In addition, persons who have benefits offset between age 65 and 69 due to the earnings test provision, may receive increased benefits as a result of the Delayed Retirement Credit (DRC) provision for each month for which a benefit was not received.The monthly benefit is increased by a specified percentage for each month a benefit was offset. For persons attaining age 62 in 1998, the percentage is 1/2 of 1 percent, resulting in an increase of 6 percent for each year for which benefits were not received.

Clarifying the Worksheet Procedure

Step 1 - Determining the Number of Computation Years

For persons who attain age 62 prior to 1991, the number of years used in the benefit computation equals the number of years after 1950 up to the year of attainment of age 62, minus 5 years. For workers who attain age 62 in 1991 or later, the number of computation years is 35.

Step 2 - Wage Indexing of Earnings

The following description and examples are provided for persons who wish to compute the index factors and indexed earnings. The indexing year is the second year prior to attainment of age 62. However, beneficiaries born on January 1 are deemed to have attained age 62 in the prior year, and consequently, the applicable indexing year, factors, and bend points are those for that year.

The average wage for the indexing year is divided by the average wage in each prior year to obtain the factor for each prior year For example, a person attains age 62 in 1998. The indexing year is 1996.The average annual wage for 1996 was $25,913.90. The average annual wage for 1975 was $8,630.92. The amount, $25,913.90 divided by $8,630.92, yields a factor of 3.0024493.

The worker's actual earnings covered under Social Security in that year, up to the maximum earnings creditable, are multiplied by the indexing factor to obtain the indexed earnings. For example, actual covered

earnings of $10,000 in 1975, multiplied by 3.0024493, result in indexed earnings of $30,024.49; actual earnings of $14,100 (the maximum creditable) result in indexed earnings of $42,334.54.

Step 3 - Computing the Average Indexed Monthly Earnings (AIME)

After the earnings in each year have been indexed, they are used in computing Average Indexed Monthly Earnings. The years of highest indexed earnings corresponding to the number of computation years are selected and totaled. This total is then divided by the number of months in the computation years. The result, rounded to the nearest lower dollar, is Average Indexed Monthly Earnings.

For example, for a person attaining age 62 in 1998, the highest 35 years of indexed earnings are used. If the sum of these earnings equals $400,000, the AIME is $952 ($400,000 divided by 420 = $952.38, rounded to $952).

Step 4 - Computing the Primary Insurance Amount (PIA)

The PIA, the amount from which all Social Security benefits payable on a worker's earnings record are based, is computed by applying a formula to the AIME. The formula consists of brackets in which 3 percentages are applied to amounts of AIME. The dollar amounts defining the brackets are called bend points, and the bend points are different for each calendar year of attainment of age 62. The PIA is rounded to the nearest lower ten cents.

For retired workers who attained age 62 in 1998, the bend points are $477 and $2,875. Thus the formula is 90 percent of the first $477 of AIME; plus 32 percent of next $2,398 of AIME; plus 15 percent of AIME above $2,875. The following are examples of PIA computations for such workers with different AIME amounts.

Example 1 - AIME of $300
PIA is $270
Based on: 90 percent of $300

Example 2 - AIME of $952
PIA is $581.30
Based on: 90 percent of $477 ($429.30); plus
32 percent of $475 ($152.00)

Example 3 - AIME of $3,000
PIA is $1,215.41
Based on: 90 percent of $477 ($429.30); plus
32 percent of $2,398 ($767.36); plus
15 percent of $125 ($18.75)

The above calculations are applicable to workers who attain age 62 in 1998. For workers who attained age 62 in prior years, the bend points will be different and the PIA must be increased to reflect cost-of-living adjustments between the year of attainment of age 62 and the year 1998. Worksheet 2 shows cost-of-living increase factors for 1979 through 1998. After the PIA is calculated for the year of attainment of age 62, cost-of-living increases are applied for each year through 1997. The result is the current 1998 PIA.

For example, a worker who attained age 62 in 1995 would receive cost-of-living adjustments for the years 1995-97. The adjustments are cumulative, with each step rounded to the next lower dime. If the age 62 PIA was $500, the cost-of-living adjustments would be:

1995: $500 multiplied by 1.026 = $513.00
1996: $513 multiplied by 1.029 = $527.80
1997: $527.80 multiplied by 1.021 = $538.80

$538.80 would be the PIA effective December 1997.

Step 5 - Computation of the Monthly Benefit

The full PIA is payable to a worker who retires at age 65. Workers can retire as early as age 62, but the monthly benefit is reduced by 5/9 of 1 percent, or 11180, for each month of entitlement before age 65 (with a maximum reduction of 20 percent).

The final monthly payment is rounded to the nearest lower dollar. For example, the monthly benefit would be $433 for a worker with a PIA of $500 who retired at age 63. The PIA would be reduced by 13.33 percent (5/9 of 1 percent (0.0055555) multiplied by 24 months). The resulting reduction, $66.67, is subtracted from $500 to obtain $433.33, which is rounded to $433.

Instructions for computing a retired-worker benefit (only for workers attaining **age 62 in years 1985–98**)		
	STEP 1.—Determining the Number of Computation Years	
1	Year of birth. (If your birthday is January 1, enter prior year.)	
2	Age "62" has been entered.	62
3	Add lines 1 and 2 to obtain year of attainment of age 62 (year of eligibility).	
4	Year of attainment of age 22. If 1951 or earlier, enter 1951.(If your birthday is January 1, enter prior year.)	
5	Subtract line 4 from line 3 (elapsed years).	
6	"5" (drop-out years) has been entered.	5
7	Subtract line 6 from line 5 (computation years-maximum 35).	
	STEP 2.—Indexing of Earnings (Use Worksheet 1 for steps 2 and 3.)	
8	Enter in column 2 your earnings in each year 1951 through 1997. If none, enter "0."	
9	Column 3 contains the maximum earnings creditable under Social Security for each year.	
10	Enter in column 4 the lower amount from columns 2 or 3 for each year.	
11	Enter in column 5 the indexing factors applicable to the year you attained age 62 (line 3) from table 2.A8.	
	(This table contains the indexing factors for persons attaining age 62 during the period 1985–98.)	
12	Multiply column 4 by column 5 and enter results in column 6 in dollars and cents. These are your indexed earnings.	
	STEP 3.—Computing the Average Indexed Monthly Earnings (AIME)	
13	Enter the number of computation years from line 7.	
14	Place an "X" in column 7 next to the highest indexed earnings corresponding with the number of computation	
	years from line 13.	
15	Add all individual indexed earnings marked with an "X."	
16	Multiply line 13 (computation years) by 12 to obtain the number of months in the computation period.	
17	Divide line 15 by line 16.	
18	Round the result in line 17 to next lower dollar. This is your average indexed monthly earnings (AIME).	
	STEP 4.—Computing the Primary Insurance Amount (PIA) (Use Worksheet 2 for step 4.)	
19	Enter first bend point from Worksheet 2 based on year of attainment of age 62, or prior year if birthday is January 1.	
20	Enter second bend point from Worksheet 2.	
21	If your AIME (obtained in line 18) is equal to or less than line 19, complete lines 22-24; If greater than line 19	
	but less than or equal to line 20, complete lines 25–30; If greater than line 20, complete lines 31–37.	
22	Enter your AIME from line 18.	
23	"0.9" has been entered. If you receive a pension based on noncovered employment see table 2.A11.	0.9
24	Multiply line 22 by line 23 and round to next lower dime to obtain your PIA at age 62. Continue with line 38.	
25	Enter your AIME from line 18.	
26	Multiply line 19 by .9. If you receive a pension based on noncovered employment see table 2.A11.	
27	Subtract line 19 from line 25.	
28	"0.32" has been entered.	0.32
29	Multiply line 27 by line 28.	
30	Add lines 26 and 29 and round to next lower dime to obtain your PIA at age 62. Continue with line 38.	
31	Enter your AIME from line 18.	
32	Multiply line 19 by 0.9. If you receive a pension based on noncovered employment see table 2.A11.	
33	Subtract line 19 from line 20 and multiply by 0.32.	
34	Subtract line 20 from line 31.	
35	"0.15" has been entered.	0.15
36	Multiply line 34 by line 35.	
37	Add lines 32, 33, and 36 and round to next lower dime to obtain your PIA at age 62. Continue with line 38.	
38	If you attained age 62 in 1997. skip to line 44. Otherwise you will need to adjust your PIA to reflect cost-of-living	
	adjustments (COLAs) from the year you attained age 62 through 1997 by using lines 39-43 and Worksheet 2.	
39	Enter year of attainment of age 62 from line 3.	
40	Place an "X" corresponding to the year you attained age 62 in column 5, Worksheet 2.	
41	Place an "X" in column 5 (Worksheet 2) next to each subsequent year through 1997.	
42	Enter your age 62 PIA from either line 24, 30. or 37-here and in shaded box in column 6, Worksheet 2.	
43	Beginning with first year marked, multiply your age 62 PIA by the corresponding factor (column 4), round to lower	
	dime, and enter in column 6. The resulting PIA is then multiplied by the next factor and is again rounded to lower	
	dime. Continue this process through 1997. Enter this last figure, which is your current PIA.	
	STEP 5.—Computing the Monthly Benefit	
44	Enter your current PIA from either line 24, 30, 37, or 43. If you retired at age 65,	
	round to next lower dollar to obtain your monthly benefit. Otherwise, continue with lines 44-49.	
45	Number of months entitled before age 65.	
46	"0.0055555" (the decimal equivalent of 5/9ths of 1 percent-the monthly reduction factor) has been entered.	0.0055555
47	Multiply line 45 by line 46 to obtain the total percentage reduction.	
48	Multiply line 44 by line 47 to obtain the amount of benefit reduction.	
49	Subtract line 48 from line 44 and round to next lower dollar to obtain your monthly benefit.	

Worksheet 1: Indexing of earnings

1 Year	2 Your earnings	3 Maximum taxable earnings	4 Lower of columns 2 or 3	5 Indexing factor	6 Column 4 times column 5	7 Highest indexed earnings
1951		$3,600				
1952		3,600				
1953		3,600				
1954		3,600				
1955		4,200				
1956		4,200				
1957		4,200				
1958		4,200				
1959		4,800				
1960		4,800				
1961		4,800				
1962		4,800				
1963		4,800				
1964		4,800				
1965		4,800				
1966		6,600				
1967		6,600				
1968		7,800				
1969		7,800				
1970		7,800				
1971		7,800				
1972		9,000				
1973		10,800				
1974		13,200				
1975		14,100				
1976		15,300				
1977		16,500				
1978		17,700				
1979		22,900				
1980		25,900				
1981		29,700				
1982		32,400				
1983		35,700				
1984		37,800				
1985		39,600				
1986		42,000				
1987		43,800				
1988		45,000				
1989		48,000				
1990		51,300				
1991		53,400				
1992		55,500				
1993		57,600				
1994		60,600				
1995		61,200				
1996		62.7001				
1997		65,400'				

Worksheet 2: Computing the primary insurance amount (PIA) for workers retiring after age 62

1 Year	1st bend point	2nd bend point	3 Cost-of-living increase	4 Cost-of-living factor	5	6 Age 62 PIA
1979	$180	$1,085	9.9	1.099		
1980	194	1,171	14.3	1.143		
1981	211	1,274	11.2	1.112		
1982	230	1,388	7.4	1.074		
1983	254	1,528	3.5	1.035		
1984	267	1,612	3.5	1.035		
1985	280	1,691	3.1	1.031		
1986	297	1,790	1.3	1.013		
1987	310	1,866	4.2	1.042		
1988	319	1,922	4.0	1.040		
1989	339	2,044	4.7	1.047		
1990	356	2,145	5.4	1.054		
1991	370	2,230	3.7	1.037		
1992	387	2,333	3.0	1.030		
1993	401	2,420	2.6	1.026		
1994	422	2,545	2.8	1.028		
1995	426	2,567	2.6	1.026		
1996	437	2,635	2.9	1.029		
1997	455	2,741	2.1	1.021		
1998	477	2,875				

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